(b) The term *nonconvertible foreign currency* means currency of the government of a foreign country which, owing to (1) monetary, exchange, or other restrictions imposed by the foreign country, (2) an agreement entered into with the United States of America, or (3) the terms and conditions of the U.S. Government grant, is not convertible into U.S. dollars or into other money which is convertible into U.S. dollars. The term shall not, however, include currency which, notwithstanding such restrictions, agreement, terms, or conditions, is in fact converted into U.S. dollars or into property which is readily disposable for U.S. dollars.

(c) If the taxpayer computes taxable income under the accrual method, then the term *received* shall be construed to mean ''accrued.''

§ 301.6316–3 Allocation of tax attributable to foreign currency.

(a) *Adjusted gross income ratio.* The portion of the tax which is attributable to amounts received in nonconvertible foreign currency shall, for purposes of applying § 301.6316–1 to the currency of each foreign country, be the amount by which:

(1) The amount which bears the same ratio to the entire tax for the taxable year as (i) the taxpayer's adjusted gross income received in that currency bears to (ii) the adjusted gross income determined under section 62 by taking into account the entire gross income and all deductions allowable under that section without distinction as to amounts received in foreign currency, exceeds

(2) The total of the allowable credits against tax, and payments on account of tax, which are properly allocable to the amount of that currency included in gross income.

(b) *Example.* (1) For the calendar year 1955 Mr. Jones and his wife filed a joint return on which the adjusted gross income is as follows, after amounts received in foreign currency had been properly translated into United States dollars for tax computation purposes:

Fulbright grant received by Mr. Jones in nonconvertible foreign currency	$8,000
Dividends received by Mr. Jones entitled to dividends-received credit	500
Compensation for personal services of Mrs. Jones	3,000
Net profit from business carried on by Mrs. Jones	2,500

Total adjusted gross income	14,000

(2) The following amounts are allowable as properly deductible from adjusted gross income, no determination being made as to whether or not any part of them is properly allocable to the Fulbright grant:

Deduction for personal exemptions	$3,000
Charitable contributions	500
Interest expense	400
Taxes	300

Total allowable deductions	4,200

(3) For the taxable year the following amounts are allowable as credits against the tax, or as payments on account of the tax:

Foreign tax credit for foreign taxes paid on Fulbright grant		$300.00
Dividends-received credit		20.00
Credit for income tax withheld upon compensation of Mrs. Jones		304.80
Payments of estimated tax (see § 301.6316–6(b)(2) for determination of amounts):		
U.S. dollars	$426.32	
Foreign currency	893.88	1,320.20

Total allowable credits and payments	1,945.00

(4) The portion of the tax which is attributable to amounts received in nonconvertible foreign currency is $33.49, determined as follows:

Adjusted gross income		$14,000.00
Less: Allowable deductions		4,200.00
Taxable income		9,800.00
Tax computed under section 2		2,148.00
Ratio of adjusted gross income received in nonconvertible foreign currency to entire adjusted gross income ($8,000÷$14,000) (percent)		57.14
Portion of tax attributable to nonconvertible foreign currency ($2,148×57.14 percent)		$1,227.37
Less:		
Credit for foreign taxes paid on Fulbright grant	$300.00	
Payment in foreign currency of estimated tax	893.88	1,193.88
Portion of tax attributable to amounts received in nonconvertible foreign currency		83.49

§ 301.6316–4 Return requirements.

(a) *Place for filing.* A return of income which includes amounts received in foreign currency on which the tax is paid in accordance with § 301.6316–1 shall be filed with the Director of International Operations, Internal Revenue Service, Washington, D.C. 20225. For the time for filing income tax returns, see sections 6072 and 6081 and §§ 1.6072–1, 1.6081–1, and 1.6081–2 of this chapter (Income Tax Regulations).